

**REPORT OF THE AUDIT OF THE  
FULTON COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2006**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE (502) 573-0050  
FACSIMILE (502) 573-0067**



**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
FULTON COUNTY FISCAL COURT**

**June 30, 2006**

The Auditor of Public Accounts has completed the audit of the Fulton County Fiscal Court for fiscal year ended June 30, 2006. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information financial statements of Fulton County, Kentucky.

**Financial Condition:**

The fiscal court had net assets of \$25,228,790 as of June 30, 2006. The fiscal court had unrestricted net assets of \$1,436,037 in its governmental activities as of June 30, 2006, with total net assets of \$25,216,678. In its business-type activities, total net cash and cash equivalents were \$2,677 with total net assets of \$12,112. The fiscal court had total debt principal as of June 30, 2006 of \$2,350,107 with \$225,653 due within the next year.

**Report Comments:**

- County Vehicles Should Be Properly Licensed And Titled
- Accurate Time Records For the Fulton County Detention Center Should Be Submitted To The County Treasurer
- The Jailer Should Strengthen Controls Over Payroll And Timekeeping
- Jail Fund Expenditures Should Be Made In Accordance With County Procurement Policy
- Jail Fund Travel Expenditures Should Be Made In Accordance With The County's Travel Policy
- The State Local Finance Officer Should Be Notified Before The County Enters Into A Lease Agreement Exceeding \$100,000
- The Fiscal Court Is Required To Pay For Purchases Within Thirty Days
- Internal Controls Should Be Strengthened Over Jail Canteen Assets
- Expenditures Should Be Supported By Proper Documentation

**Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Harold M. Garrison, Former Fulton County Judge/Executive  
Honorable David Gallagher, Fulton County Judge/Executive  
Members of the Fulton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fulton County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Fulton County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Fulton County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fulton County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To the People of Kentucky  
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fulton County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 8, 2006, on our consideration of Fulton County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- County Vehicles Should Be Properly Licensed And Titled
- Accurate Time Records For The Fulton County Detention Center Should Be Submitted To The County Treasurer
- Jailer Should Strengthen Controls Over Payroll And Timekeeping
- Jail Fund Expenditures Should Be Made In Accordance With County Procurement Policy
- Jail Fund Travel Expenditures Should Be Made In Accordance With The County's Travel Policy
- The State Local Finance Officer Should Be Notified Before The County Enters Into A Lease Agreement Exceeding \$100,000
- The Fiscal Court Is Required To Pay For Purchases Within Thirty Days
- Internal Controls Should Be Strengthened Over Jail Canteen Assets
- Expenditures Should Be Supported By Proper Documentation

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

December 8, 2006



FULTON COUNTY OFFICIALS

For The Year Ended June 30, 2006

**Fiscal Court Members:**

Harold M. Garrison	County Judge/Executive
Billy Nelms, Jr.	Magistrate
Louis Roscoe Hutchins	Magistrate
James D. Black	Magistrate
Dennis Hulin	Magistrate

**Other Elected Officials:**

Richard L. Major, Jr.	County Attorney
Ricky Parnell	Jailer
Betty Abernathy	County Clerk
Sarah Johnson	Circuit Court Clerk
Robert Hopper	Sheriff
Debbie Ward	Property Valuation Administrator
Henry Callison	Coroner

**Appointed Personnel:**

Fonda Swain	County Treasurer
Leslie Wood	Finance Officer
Dennis Warner	Road Supervisor
Tommy Hodges	911 Administrator
Chris Buckingham	Jail Administrative Assistant

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**FULTON COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2006**



**FULTON COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2006**

	<b>Primary Government</b>		
	<b>Governmental</b>	<b>Business-Type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Totals</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 1,712,590	\$ 2,677	\$ 1,715,267
Accounts Receivable		61	61
Total Current Assets	<u>1,712,590</u>	<u>2,738</u>	<u>1,715,328</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	67,854		67,854
Construction In Progress	181,020		181,020
Buildings	5,631,233		5,631,233
Vehicles and Equipment	1,184,050	9,374	1,193,424
Infrastructure Assets - Net of Depreciation	<u>18,790,038</u>		<u>18,790,038</u>
Total Noncurrent Assets	<u>25,854,195</u>	<u>9,374</u>	<u>25,863,569</u>
Total Assets	<u>27,566,785</u>	<u>12,112</u>	<u>27,578,897</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Financing Obligations	95,653		95,653
Bonds	<u>130,000</u>		<u>130,000</u>
Total Current Liabilities	<u>225,653</u>		<u>225,653</u>
Noncurrent Liabilities:			
Financing Obligations	974,454		974,454
Bonds	<u>1,150,000</u>		<u>1,150,000</u>
Total Noncurrent Liabilities	<u>2,124,454</u>		<u>2,124,454</u>
Total Liabilities	<u>2,350,107</u>		<u>2,350,107</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	23,504,088	9,374	23,513,462
Restricted For:			
Debt Service	276,553		276,553
Unrestricted	<u>1,436,037</u>	<u>2,738</u>	<u>1,438,775</u>
Total Net Assets	<u>\$ 25,216,678</u>	<u>\$ 12,112</u>	<u>\$ 25,228,790</u>

The accompanying notes are an integral part of the financial statements.

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**FULTON COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2006**

**FULTON COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,371,949		\$ 306,444	\$ 85,655
Protection to Persons and Property	1,829,117	1,715,251	191,486	4,784
General Health and Sanitation	713		11,413	
Social Services	3,900			312,088
Recreation and Culture	12,800			
Transportation Facilities and Services	8,037			
Roads	1,169,776		632,337	116,482
Other Transportation Facilities and Services	210,305		138,857	
Interest on Long-term Debt	125,036			
Capital Projects	500			
Total Governmental Activities	4,732,133	1,715,251	1,280,537	519,009
Business-type Activities:				
Jail Canteen	46,175	43,323		
Total Business-type Activities	46,175	43,323		
Total Primary Government	\$ 4,778,308	\$ 1,758,574	\$ 1,280,537	\$ 519,009

**General Revenues:**

Taxes:

    Personal Property Taxes

    Motor Vehicle Taxes

    Other Taxes

In Lieu of Tax Payments

Excess Fees

Legal Process

Miscellaneous Revenues

Accrued Interest Received

Gain on Disposal of Capital Asset

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.



**FULTON COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2006**  
**(Continued)**

<b>Net (Expenses) Revenues and Changes in Net Assets</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>
\$ (979,850)	\$	\$ (979,850)
82,404		82,404
10,700		10,700
308,188		308,188
(12,800)		(12,800)
(8,037)		(8,037)
(420,957)		(420,957)
(71,448)		(71,448)
(125,036)		(125,036)
(500)		(500)
<u>(1,217,336)</u>		<u>(1,217,336)</u>
	<u>(2,852)</u>	<u>(2,852)</u>
	<u>(2,852)</u>	<u>(2,852)</u>
<u>(1,217,336)</u>	<u>(2,852)</u>	<u>(1,220,188)</u>
242,397		242,397
38,358		38,358
309,352		309,352
33,419		33,419
21		21
47		47
85,246		85,246
45,093	200	45,293
30		30
<u>753,963</u>	<u>200</u>	<u>754,163</u>
<u>(463,373)</u>	<u>(2,652)</u>	<u>(466,025)</u>
<u>25,680,051</u>	<u>14,764</u>	<u>25,694,815</u>
<u>\$ 25,216,678</u>	<u>\$ 12,112</u>	<u>\$ 25,228,790</u>

The accompanying notes are an integral part of the financial statements.

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**FULTON COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2006**

**FULTON COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2006**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Capital Projects Corporation Fund</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 495,384	\$ 760,231	\$ 42,335	\$ 276,553
Total Assets	<u>\$ 495,384</u>	<u>\$ 760,231</u>	<u>\$ 42,335</u>	<u>\$ 276,553</u>
<b>FUND BALANCES</b>				
Reserved for:				
Encumbrances	\$ 1,765	\$ 5,383	\$ 42,335	
Unreserved:				
General Fund	493,619			
Special Revenue Funds		754,848		
Debt Service Fund				276,553
Total Fund Balances	<u>\$ 495,384</u>	<u>\$ 760,231</u>	<u>\$ 42,335</u>	<u>\$ 276,553</u>

The accompanying notes are an integral part of the financial statements.

**FULTON COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2006**  
**(Continued)**

<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$ 138,087	\$ 1,712,590
\$ 138,087	\$ 1,712,590

\$ 131,066      \$ 180,549

	493,619
7,021	761,869
	276,553
\$ 138,087	\$ 1,712,590

**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:**

Total Fund Balances	\$ 1,712,590
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	34,590,736
Accumulated Depreciation	(8,736,541)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	(1,070,107)
Bonded Debt	(1,280,000)
Net Assets Of Governmental Activities	\$ 25,216,678

The accompanying notes are an integral part of the financial statements.

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**FULTON COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

**FULTON COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

	<u><b>General Fund</b></u>	<u><b>Road Fund</b></u>	<u><b>Jail Fund</b></u>
<b>REVENUES</b>			
Taxes	\$ 590,107	\$	\$
In Lieu Tax Payments	33,419		
Excess Fees	21		
Intergovernmental	227,777	887,676	1,877,124
Charges for Services			25,052
Miscellaneous	6,049	617	84,980
Interest	10,768	24,552	597
Total Revenues	<u>868,141</u>	<u>912,845</u>	<u>1,987,753</u>
<b>EXPENDITURES</b>			
General Government	672,618		
Protection to Persons and Property	22,691		1,953,069
General Health and Sanitation	713		
Social Services	3,900		
Recreation and Culture	5,600		
Transportation Facilities and Services		8,037	
Roads		594,011	
Other Transportation Facilities and Services		213,310	
Debt Service			119,301
Capital Projects	500		
Administration	261,324	97,426	374,259
Total Expenditures	<u>967,346</u>	<u>912,784</u>	<u>2,446,629</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(99,205)</u>	<u>61</u>	<u>(458,876)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers From Other Funds	107,092		
Transfers To Other Funds	(14,209)	(107,092)	
Debt Issuance			108,139
Total Other Financing Sources (Uses)	<u>92,883</u>	<u>(107,092)</u>	<u>108,139</u>
Net Change in Fund Balances	(6,322)	(107,031)	(350,737)
Fund Balances - Beginning	501,706	867,262	393,072
Fund Balances - Ending	<u>\$ 495,384</u>	<u>\$ 760,231</u>	<u>\$ 42,335</u>

The accompanying notes are an integral part of the financial statements.



**FULTON COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2006**  
**(Continued)**

<b>Capital Projects Corporation Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$	\$	\$ 590,107
		33,419
		21
177,600	319,615	3,489,792
		25,052
		91,646
9,177		45,094
<u>186,777</u>	<u>319,615</u>	<u>4,275,131</u>
		672,618
	10,215	1,985,975
		713
		3,900
		5,600
		8,037
		594,011
		213,310
196,305		315,606
	181,020	181,520
600		733,609
<u>196,905</u>	<u>191,235</u>	<u>4,714,899</u>
<u>(10,128)</u>	<u>128,380</u>	<u>(439,768)</u>
14,209		121,301
		(121,301)
		108,139
<u>14,209</u>		<u>108,139</u>
4,081	128,380	(331,629)
272,472	9,707	2,044,219
<u>\$ 276,553</u>	<u>\$ 138,087</u>	<u>\$ 1,712,590</u>

The accompanying notes are an integral part of the financial statements.

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**FULTON COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**



**FULTON COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

Net Change in Fund Balances - Total Governmental Funds	\$ (331,629)
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Amounts Reported for Governmental Activities in the Statement of  
Activities Are Different Because:

Governmental Funds Report Capital Outlays as Expenditures. However,  
in the Statement of Activities the Cost of Those Assets Are Allocated Over  
Their Estimated Useful Lives and Reported as Depreciation Expense.

Book Value of Disposed Assets	(6,370)
Capital Outlay	707,904
Depreciation Expense	(915,708)

The Issuance of Long-term Debt (e.g. Bonds, Financing Obligations) Provides  
Current Financial Resources to Governmental Funds, While Repayment of Principal  
on Long-term Debt Consumes the Current Financial Resources of Governmental  
Funds. These Transactions, However, Have No Effect on Net Assets.

Proceeds from Debt Issue	(108,139)
Financing Obligations Principal Payments	65,569
Bond Principal Payments	125,000

Change in Net Assets of Governmental Activities	\$ (463,373)
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**FULTON COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2006**





**FULTON COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2006**

	<b>Business-Type Activity Enterprise Fund</b>	<b>Jail Canteen Fund</b>
<b>Assets</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 2,677	
Accounts Receivable	61	
Total Current Assets	<u>2,738</u>	
Noncurrent Assets:		
Capital Assets:		
Vehicles and Equipment	13,499	
Less Accumulated Depreciation	<u>(4,125)</u>	
Total Noncurrent Assets	<u>9,374</u>	
Total Assets	<u>12,112</u>	
<b>Net Assets</b>		
Invested in Capital Assets,		
Net of Related Debt	9,374	
Unrestricted	2,738	
Total Net Assets	<u>\$ 12,112</u>	

The accompanying notes are an integral part of the financial statements.

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**FULTON COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**



**FULTON COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

	<b>Business-Type Activity</b> <hr/> <b>Enterprise Fund</b> <hr/>
	<b>Jail Canteen Fund</b> <hr/>
<b>Operating Revenues</b>	
Canteen Receipts	\$ 43,323
Total Operating Revenues	<hr/> 43,323 <hr/>
<b>Operating Expenses</b>	
Cost of Sales	13,656
Educational and Recreational	23,346
Computer Software and Maintenance	4,100
Personnel Costs	2,600
Depreciation	1,545
Miscellaneous	928
Total Operating Expenses	<hr/> 46,175 <hr/>
Operating Loss	<hr/> (2,852) <hr/>
<b>Nonoperating Revenues (Expenses)</b>	
Donations	<hr/> 200 <hr/>
Total Nonoperating Revenues	<hr/> 200 <hr/>
Change In Net Assets	(2,652)
Total Net Assets - Beginning	14,764
Total Net Assets - Ending	<hr/> \$ 12,112 <hr/>

The accompanying notes are an integral part of the financial statements.

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**FULTON COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**





**FULTON COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

	<u><b>Business-Type Activity Enterprise Fund</b></u>
	<u><b>Jail Canteen Fund</b></u>
<b>Cash Flows From Operating Activities</b>	
Canteen Commissions	\$ 43,323
Cost of Sales	(13,656)
Educational and Recreational	(23,346)
Computer Software and Maintenance	(4,100)
Personnel Costs	(2,600)
Miscellaneous	(928)
Net Cash Used By Operating Activities	<u>(1,307)</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
Donations	<u>200</u>
Net Cash Provided By Noncapital Financing Activities	<u>200</u>
Net Decrease in Cash and Cash Equivalents	(1,107)
Cash and Cash Equivalents - July 1, 2005	<u>3,784</u>
Cash and Cash Equivalents - June 30, 2006	<u><u>\$ 2,677</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>	
Operating Loss	\$ (2,852)
Adjustments to Reconcile Operating Income To Net Cash Provided By Operating Activities	
Depreciation Expense	<u>1,545</u>
Net Cash Used By Operating Activities	<u><u>\$ (1,307)</u></u>

The accompanying notes are an integral part of the financial statements.

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**FULTON COUNTY**  
**STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2006**



**FULTON COUNTY**  
**STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2006**

	<u>Agency Funds</u>	
	<u>Jail Inmate Fund</u>	<u>Jail Escrow Fund</u>
<b>Assets</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 10,952	\$ 4,248
Total Assets	<u>10,952</u>	<u>4,248</u>
<b>Liabilities</b>		
Amounts Held In Custody For Others	<u>10,952</u>	<u>4,248</u>
Total Liabilities	<u>10,952</u>	<u>4,248</u>
<b>Net Assets</b>		
Total Net Assets	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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**FULTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Fulton County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The County has no discretely presented component units.

**Blended Component Units**

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

**Fulton County Capital Projects Corporation**

The Fulton County Fiscal Court appoints the Capital Project Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Capital Projects Corporation. Financial information for the Capital Projects Corporation is blended within Fulton County's financial statements. All activities of the Capital Projects Corporation are accounted for within a governmental fund.

**FULTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Kentucky law provides for election of the officials below from the geographic area constituting Fulton County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Fulton County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**C. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.



**FULTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Government-wide and Fund Financial Statements (Continued)**

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government and payments from other counties for housing prisoners. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Capital Projects Corporation Fund - This fund accounts for the debt service requirements of refunding revenue bonds of the County as a Debt Service Fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest. The Governor's Office for Local Development does not require the County to report or budget these funds. However, the county has decided to include the Capital Projects Corporation as part of the primary government as a blended component unit of the County.

The primary government also has the following non-major funds: Disaster and Emergency Services Fund and Community Development Block Grant Fund, which are presented as Special Revenue Funds.

**Special Revenue Funds:**

The Road Fund, Jail Fund, Disaster and Emergency Services Fund, and Community Development Block Grant Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

**FULTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds (Continued)**

**Debt Service Fund:**

The Capital Projects Corporation Fund is presented as a debt service fund. The debt service fund is to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3<sup>rd</sup> Saturday in April following the delinquency date.

**Proprietary Funds**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenue of the county's enterprise fund is charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

**Fiduciary Funds**

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the Jail Inmate Account and the Jail Escrow Account for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary funds:

Jail Inmate Account - This accounts for funds received from inmates and held until inmates use these funds or are released from custody.

Jail Escrow Account - This fund accounts for funds of former inmates that the jailer is unable to locate.

**FULTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**E. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 2,500	15-30
Buildings and Building Improvements	\$ 2,500	10-60
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-15
Infrastructure	\$ 2,500	10-50

**F. Long-term Obligations**

In the government-wide financial statements and proprietary fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**FULTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**H. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Canteen Fund or the Capital Projects Corporation to be budgeted.

**I. Jointly Governed Organizations**

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility is a jointly governed organization. Based upon these criteria, the following are considered jointly governed organization of Fulton County: Fulton County Economic Development Partnership; Senior Citizens, Incorporated; Hickman-Fulton County Riverport Authority; Ken-Tenn Airport; and Purchase Area Regional Industrial Authority, Incorporated.

**FULTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 2. Deposits**

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposit may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 62,980	\$ 4,874	\$	\$ 67,854
Construction In Progress		181,020		181,020
Total Capital Assets Not Being Depreciated	62,980	185,894		248,874
Capital Assets, Being Depreciated:				
Buildings	7,800,948			7,800,948
Vehicles and Equipment	1,398,917	394,626	(7,000)	1,786,543
Infrastructure	24,626,987	127,384		24,754,371
Total Capital Assets Being Depreciated	33,826,852	522,010	(7,000)	34,341,862
Less Accumulated Depreciation For:				
Buildings	(2,046,394)	(123,321)		(2,169,715)
Vehicles and Equipment	(496,088)	(107,035)	630	(602,493)
Infrastructure	(5,278,982)	(685,351)		(5,964,333)
Total Accumulated Depreciation	(7,821,464)	(915,707)	630	(8,736,541)
Total Capital Assets, Being Depreciated, Net	26,005,388	(393,697)	(6,370)	25,605,321
Governmental Activities Capital Assets, Net	<u>\$ 26,068,368</u>	<u>\$ (207,803)</u>	<u>\$ (6,370)</u>	<u>\$ 25,854,195</u>

**FULTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 3. Capital Assets (Continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 13,499	\$	\$	\$ 13,499
Total Capital Assets Being Depreciated	13,499			13,499
Less Accumulated Depreciation For:				
Vehicles and Equipment	(2,580)	(1,545)		(4,125)
Total Accumulated Depreciation	(2,580)	(1,545)		(4,125)
Total Capital Assets, Being Depreciated, Net	10,919	(1,545)		9,374
Business-Type Activities Capital Assets, Net	<u>\$ 10,919</u>	<u>\$ (1,545)</u>	<u>\$ 0</u>	<u>\$ 9,374</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 49,896
Protection to Persons and Property	119,998
Recreation and Culture	7,200
Roads, Including Depreciation of General Infrastructure Assets	736,118
Other Transportation Facilities and Services	<u>2,496</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 915,708</u>
<u>Business-Type Activities</u>	
Jail Canteen	<u>\$ 1,545</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 1,545</u>

**Note 4. Long-term Debt**

**A. First Mortgage Refunding Revenue Bonds, Series 1996**

The Fulton County Capital Projects Corporation, an independent corporate agency and instrumentality of Fulton County, issued first mortgage refunding revenue bonds, series 1996, for the purpose of discharging the outstanding bonds of series 1990A, 1990B, and 1991 (collectively referred to herein as the "Prior Bonds"). The net proceeds thereof were used to complete, equip, and furnish the Court Facilities Project and annex which houses county government offices. As of June 30, 2006, the prior bonds had been called.

**FULTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**A. First Mortgage Refunding Revenue Bonds, Series 1996 (Continued)**

The Fulton County Capital Projects Corporation ("Corporation") issued refunding revenue bonds, series 1996, on December 1, 1996 for \$2,215,000. The Corporation entered into a Use and Sublease Agreement with the Kentucky Administrative Office of the Courts ("AOC") dated December 1, 1996, whereby the AOC makes semi-annual payments directly to the paying agent to partially fund the debt service for the bond issue.

As of June 30, 2006, outstanding bond principal was \$1,280,000. The remaining bond principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 130,000	\$ 64,675
2008	135,000	57,751
2009	145,000	50,401
2010	150,000	42,658
2011	160,000	34,480
2012-2016	560,000	36,180
Totals	<u>\$ 1,280,000</u>	<u>\$ 286,145</u>

**B. Kentucky Local Correctional Facilities Construction Authority**

The Kentucky Local Correctional Facilities Construction Authority ("Authority"), an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issued revenue bonds at various interest rates for the purpose of providing financing for the construction and reconstruction of jail facilities for local governments throughout the state. Of the bonds issued, Fulton County was allocated \$943,147 principal amount, for which the county agreed to pay \$355,082 principal and a proportional share of interest on the issue. The remaining principal and interest requirements on the county's allocation were the obligation of the Authority.

In October 2004, revenue refunding bonds were issued by the Authority for the purpose of achieving interest cost savings through redemption of the previous revenue bonds outstanding. Fulton County's allocation of this bond issue was \$488,770 principal amount, issued at various interest rates (currently 2.25 to 5.25 percent). The county has agreed to pay \$180,601 principal and a proportional share of interest on the issue, with the Authority responsible for the remaining principal and interest requirements. Revenue refunding bonds outstanding as of June 30, 2006 totaled \$167,314. The county's remaining bond principal and interest requirements are:

**FULTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**B. Kentucky Local Correctional Facilities Construction Authority (Continued)**

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 14,170	\$ 10,667
2008	15,113	9,694
2009	16,118	8,655
2010	17,190	7,547
2011	18,334	6,364
2012-2016	86,389	11,971
Totals	<u>\$ 167,314</u>	<u>\$ 54,898</u>

**C. Fulton County Detention Facility Annex #1 and Annex #2**

Fulton County entered into two financing agreements with the Kentucky Association of Counties Leasing Trust. The purpose of these two financing agreements was for the construction and use of the Fulton County Detention Facility Annex #1 and Annex #2. The Annex #1 financing agreement, entered into on July 17, 1992, was for a total principal of \$415,000 at a fixed rate of 5.25 percent. In December 2004, the lease changed to a variable rate, which was 4.25 percent through the end of the current fiscal year. The Annex #2 financing agreement, entered into on January 30, 1998, was for a total principal of \$775,000 at a variable rate, which was also 4.25 percent for the current fiscal year. As of June 30, 2006, the County was in compliance with financing agreements. Total principal outstanding was \$249,000 and \$545,654, respectively.

The remaining principal and interest requirements are:

1) Jail Annex #1

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 17,000	\$ 12,837
2008	18,000	11,926
2009	19,000	10,943
2010	20,000	9,913
2011	21,000	8,824
2012-2016	125,000	25,610
2017	29,000	905
Totals	<u>\$ 249,000</u>	<u>\$ 80,958</u>



**FULTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

2) Jail Annex #2

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 37,716	\$ 26,573
2008	39,207	24,700
2009	40,756	22,691
2010	42,367	20,622
2011	44,041	18,457
2012-2016	247,732	57,020
2017-2018	93,835	4,548
Totals	<u>\$ 545,654</u>	<u>\$ 174,611</u>

**D. Daimler Chrysler**

Fulton County entered into a lease agreement with DaimlerChrysler Truck Financial in May 2006 for the purchase of four 2006 Dodge Chargers to be used by the Fulton County Detention Center. The total principal amount of the lease was for \$108,139, with an interest rate of 6.03%. As of June 30, 2006, the County had not begun making payments toward the lease obligation. Total outstanding principal was \$108,139.

The remaining principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 26,767	\$ 6,268
2008	26,306	4,189
2009	27,937	2,558
2010	27,129	825
Totals	<u>\$ 108,139</u>	<u>\$ 13,840</u>

**FULTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Bonds	\$ 1,405,000	\$	\$ 125,000	\$1,280,000	\$ 130,000
Financing Obligations	<u>1,027,537</u>	<u>108,139</u>	<u>65,569</u>	<u>1,070,107</u>	<u>95,653</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 2,432,537</u>	<u>\$ 108,139</u>	<u>\$ 190,569</u>	<u>\$2,350,107</u>	<u>\$ 225,653</u>

**Note 5. Interest On Long-term Debt and Financing Obligations**

Interest on Long Term Debt on the Statement of Activities includes \$53,731 in interest on financing obligations and \$71,305 in interest on bonds.

**Note 6. Related Party Transactions**

**A. Fields Petroleum**

During the fiscal year ended June 30, 2006, the magistrate from District #4 was employed as a salesperson by Fields Petroleum, Incorporated. Even though the magistrate from District #4 abstained from voting on the oil and gas bids, Fulton County awarded this bid to Fields Petroleum. During the fiscal year ended June 30, 2006, Fulton County purchased \$60,151 from Fields Petroleum, Incorporated. The Fulton County Ethics Code allows this transaction since the magistrate from District #4 did not participate in the bid process.

**B. CDSS, LLC**

During the fiscal year, the Fulton County Detention Center conducted business with CDSS, LLC, a computer sales and service company. Throughout the fiscal year, the detention center expended funds totaling \$33,455 from the Jail Fund and \$4,100 from the Jail Canteen Fund for computer repairs and electronic and surveillance equipment. A full-time employee of the Fulton County Detention Center owns CDSS, LLC.

**C. Bradley & Roberts**

During the fiscal year, the Fulton County Detention Center contracted with Bradley & Roberts, a collection agency, for the collection of booking and boarding fees. The collection agency received commissions totaling \$6,217 for the collection of these fees. An employee of the collection agency is the sister of the Jailers' administrative assistant.

**FULTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 7. Employee Retirement System**

The County has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 8. Insurance**

For the fiscal year ended June 30, 2006, Fulton County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 9. Estimated Infrastructure Historical Cost**

Historical cost of infrastructure placed in service prior to the fiscal year ended June 30, 2004 (year of GASB 34 implementation) is an estimate. For those assets, the primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. This estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Estimated infrastructure historical cost includes infrastructure placed in service from fiscal year 1984 through June 30, 2003. All infrastructure assets placed in service during the fiscal year ended June 30, 2004 and thereafter are recorded at actual historical cost.

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**FULTON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2006**



**FULTON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2006**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 466,900	\$ 466,900	\$ 590,107	\$ 123,207
In Lieu Tax Payments	32,000	32,000	33,419	1,419
Excess Fees	7,129	7,129	21	(7,108)
Licenses and Permits	400	400		(400)
Intergovernmental	489,143	502,627	227,777	(274,850)
Miscellaneous	4,500	4,500	6,049	1,549
Interest	3,500	3,500	10,768	7,268
Total Revenues	<u>1,003,572</u>	<u>1,017,056</u>	<u>868,141</u>	<u>(148,915)</u>
<b>EXPENDITURES</b>				
General Government	737,086	764,563	672,618	91,945
Protection to Persons and Property	40,750	38,519	22,691	15,828
General Health and Sanitation	6,300	19,784	713	19,071
Social Services	5,300	5,300	3,900	1,400
Recreation and Culture	16,000	16,000	5,600	10,400
Debt Service	15,000	15,000		15,000
Capital Projects	306,944	306,944	500	306,444
Administration	428,284	403,038	261,324	141,714
Total Expenditures	<u>1,555,664</u>	<u>1,569,148</u>	<u>967,346</u>	<u>601,802</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(552,092)</u>	<u>(552,092)</u>	<u>(99,205)</u>	<u>452,887</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	107,092	107,092	107,092	
Transfers To Other Funds			(14,209)	(14,209)
Total Other Financing Sources (Uses)	<u>107,092</u>	<u>107,092</u>	<u>92,883</u>	<u>(14,209)</u>
Net Changes in Fund Balance	(445,000)	(445,000)	(6,322)	438,678
Fund Balance - Beginning	<u>445,000</u>	<u>445,000</u>	<u>501,706</u>	<u>56,706</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 495,384</u>	<u>\$ 495,384</u>

**FULTON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2006**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental	\$ 1,037,476	\$ 1,176,333	\$ 887,676	\$ (288,657)
Miscellaneous	1,000	1,000	617	(383)
Interest	7,500	7,500	24,552	17,052
Total Revenues	1,045,976	1,184,833	912,845	(271,988)
<b>EXPENDITURES</b>				
Transportation Facilities and Services	10,000	10,000	8,037	1,963
Roads	774,683	792,193	594,011	198,182
Other Transportation Facilities and Services	27,521	40,121	213,310	(173,189)
Capital Projects	405,061	543,918		543,918
Administration	571,619	541,509	97,426	444,083
Total Expenditures	1,788,884	1,927,741	912,784	1,014,957
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(742,908)	(742,908)	61	742,969
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	(107,092)	(107,092)	(107,092)	
Total Other Financing Sources (Uses)	(107,092)	(107,092)	(107,092)	
Net Changes in Fund Balance	(850,000)	(850,000)	(107,031)	742,969
Fund Balance - Beginning	850,000	850,000	867,262	17,262
Fund Balance - Ending	\$ 0	\$ 0	\$ 760,231	\$ 760,231



**FULTON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2006**  
**(Continued)**

<b>JAIL FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental	\$ 1,815,671	\$ 1,815,671	\$ 1,877,124	\$ 61,453
Charges for Services	33,880	33,880	25,052	(8,828)
Miscellaneous	131,601	131,601	84,980	(46,621)
Interest			597	597
Total Revenues	<u>1,981,152</u>	<u>1,981,152</u>	<u>1,987,753</u>	<u>6,601</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property	1,585,997	1,866,473	1,844,930	21,543
Debt Service	124,500	120,390	119,301	1,089
Administration	370,655	387,361	374,259	13,102
Total Expenditures	<u>2,081,152</u>	<u>2,374,224</u>	<u>2,338,490</u>	<u>35,734</u>
Net Changes in Fund Balance	(100,000)	(393,072)	(350,737)	(29,133)
Fund Balance - Beginning	<u>100,000</u>	<u>393,072</u>	<u>393,072</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 42,335</u>	<u>\$ (29,133)</u>

**Reconciliation of Budgetary Statement to Statement of  
Revenues, Expenditures, and Changes in Fund Balances -  
Governmental Funds - Modified Cash Basis:**

Total Expenditures Per Budgetary Statement	\$ 2,338,490
Lease Purchase - Vehicles	<u>108,139</u>
Total Expenditures - Modified Cash Basis	<u>\$ 2,446,629</u>
Total Other Financing Sources (Uses) - Budgetary Basis	\$ 0
Lease Proceeds - Vehicles	<u>180,139</u>
Total Other Financing Sources (Uses) - Modified Cash Basis	<u>\$ 180,139</u>

**FULTON COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2006**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**FULTON COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2006**



**FULTON COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2006**

	<b>Disaster And Emergency Services Fund</b>	<b>Community Development Block Grant Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 7,019	\$ 131,068	\$ 138,087
Total Assets	<u>\$ 7,019</u>	<u>\$ 131,068</u>	<u>\$ 138,087</u>
<b>FUND BALANCES</b>			
Reserved for:			
Encumbrances	\$	\$ 131,066	\$ 131,066
Unreserved:			
Special Revenue Funds	7,019	2	7,021
Total Fund Balances	<u>\$ 7,019</u>	<u>\$ 131,068</u>	<u>\$ 138,087</u>

The accompanying notes are an integral part of the financial statements.

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**FULTON COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2006**





**FULTON COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2006**

	<b>Disaster And Emergency Services Fund</b>	<b>Community Development Block Grant Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>			
Intergovernmental	\$ 7,527	\$ 312,088	\$ 319,615
Total Revenues	<u>7,527</u>	<u>312,088</u>	<u>319,615</u>
<b>EXPENDITURES</b>			
Protection to Persons and Property	10,215		10,215
Capital Projects		181,020	181,020
Total Expenditures	<u>10,215</u>	<u>181,020</u>	<u>191,235</u>
Net Change in Fund Balances	(2,688)	131,068	128,380
Fund Balances - Beginning	9,707		9,707
Fund Balances - Ending	<u><u>\$ 7,019</u></u>	<u><u>\$ 131,068</u></u>	<u><u>\$ 138,087</u></u>

The accompanying notes are an integral part of the financial statements.

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**FULTON COUNTY  
COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2006**



**FULTON COUNTY  
COMMENTS AND RECOMMENDATIONS**

**Fiscal Year Ended June 30, 2006**

STATE LAWS AND REGULATIONS

County Vehicles Should Be Properly Licensed And Titled

A passenger bus that was purchased through the Jail Fund was not properly registered or titled in the County's name. KRS 186A.065 states, "Except as otherwise provided, before the owner of a motor vehicle or trailer may operate it or permit its operation upon the highways of this state, he shall obtain motor vehicle insurance as required by KRS 304.39-080, a certificate of registration, and a license plate and apply for a certificate of title in his name." Furthermore, KRS 186.990(6), the "penalty" section to KRS Chapter 186A states, "Any person who violates any provisions of this chapter, or regulations prescribed by statute, shall be guilty of a Class A misdemeanor." We recommend the County obtain proper title and registration on the Ford passenger bus and all other vehicles owned and operated by the County as required by KRS 186A.065.

*Former County Judge/Executive Harold Garrison's Response: Proper title and registration has been obtained.*

*County Jailer Ricky Parnell's Response: We sent all proper documentation to Fiscal Court, what happened from that point, I don't know. We have steps in place to remedy this.*

Jail Fund Expenditures Should Be Made In Accordance With The County's Procurement Policy

The Jailer made purchases that were not in accordance with the county's procurement policy. The Jailer purchased mowers, vehicles, radio equipment, and cameras and surveillance equipment totaling \$109,810. KRS 441.225(1) states, "the jailer shall have the authority to authorize expenditures from the jail budget. Such expenditures shall only be made in accordance with the line item jail budget duly adopted or amended by the fiscal court and the established county procurement code or purchase order procedure of the county." According to the county procurement code, any purchase exceeding \$5,000 requires the official to submit to the county judge/executive a written request containing the specifications, quantities, and delivery desired. We recommend the Jailer comply with KRS 441.225(1) by following the guidelines set forth by the County's procurement procedures. We also recommend the fiscal court closely review expenditures before payment is approved.

*Former County Judge/Executive Harold Garrison's Response: No Response*

*County Jailer Ricky Parnell's Response: Before I make any purchase over \$5,000, I contact all magistrates and have received verbal approval to purchase the items. No, I have not requested it in writing and never for the 17 years I've been in office and nothing was ever said. I will be happy to request it in writing with no questions at all.*

**FULTON COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2006**  
**(Continued)**

STATE LAWS AND REGULATIONS (Continued)

The State Local Finance Officer Should Be Notified Before The County Enters Into A Lease Agreement Exceeding \$100,000

The Jailer entered into a lease agreement with a principal balance of \$108,139 for the purchase of four Dodge Chargers without giving written notification to the State Local Finance Officer or County Judge/Executive. The Jailer entered into a lease agreement with the dealer who held the "State Price Contract;" therefore, the vehicles were not bid; however, KRS 441.225 requires the Jailer to follow the county's procurement code. According to the county procurement code, any purchase exceeding \$5,000 requires the official to submit to the county judge/executive a written request containing the specifications, quantities, and delivery desired. According to KRS 65.944(1)(a), no local government may enter into a lease with a principal amount exceeding \$100,000 without first notifying the State Local Finance Officer in writing. The notification shall contain the terms of the lease, including the lease price, number of optional renewal periods, interest rate, date of issue, purpose, any trustee or paying agent, and any other information that the State Local Finance Officer may require. We recommend that the Jailer follow the county's procurement policy so that the County Judge/Executive can comply with KRS 65.944 by giving written notification to the State Local Finance Officer on any and all future lease agreements exceeding \$100,000. We are also recommending that the County Attorney review this transaction.

*Former County Judge/Executive Harold Garrison's Response:* No Response

*County Jailer Ricky Parnell's Response:* I did get verbal approval from the magistrates to order these vehicles, but I was not aware I had to contact the State Local Finance Officer in writing.

The Fiscal Court Is Required To Pay For Purchases Within Thirty Days

Invoices were being held in excess of thirty days as a result of a lack of available budget appropriations. Finance charges and interest were also incurred on credit accounts due to invoices being paid late or not being paid in full. KRS 65.140 states, "all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor." We recommend the fiscal court comply with KRS 65.140 by paying all invoices for goods or services in full within thirty (30) working days of receipt of a vendor's invoice. We also recommend that the Jailer submit invoices to the Finance Officer on a timely basis so that the invoices can be paid timely.

*Former County Judge/Executive Harold Garrison's Response:* No Response

*County Jailer Ricky Parnell's Response:* The Fiscal Court meets on the second Tuesday of every month, the bills have to be turned in the Friday before the meeting. If we receive a bill after that Friday it cannot be paid until the next month's meeting. We recommend the Fiscal Court push the meeting back to allow time for all bills to come in and be processed.

**FULTON COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2006**  
**(Continued)**

INTERNAL CONTROL – REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES

Accurate Time Records For The Fulton County Detention Center Should Be Submitted To The County Treasurer

Expanded procedures were performed on the Jailer's system of timekeeping for payroll. Under the Jailer's current practice, the Jailer's administrative assistant completes timesheets, crediting at least one jail employee for eight hours worked a day, Monday through Friday, regardless of actual hours worked for an extended time period. The employee does not sign a timesheet and the administrative assistant does not verify the number of hours worked each week. These timesheets are then submitted to the County Treasurer's office to process payroll.

Additionally, the Jailer's administrative assistant records 5 days of vacation time for each employee at his or her anniversary date. However, an employee was paid for 40 hours of vacation time that had not been earned.

We recommend the Jailer obtain reimbursement of \$480 from this employee. We also recommend that vacation time be paid after it is earned. Furthermore, we recommend the Jailer establish a new timekeeping system that accurately reflects the hours worked by detention center employees and eliminate any chance of employees being paid for hours not worked and that the Jailer provide more oversight over the payroll process.

*Former County Judge/Executive Harold Garrison's Response:* No Response

*County Jailer Ricky Parnell's Response:* When this employee was hired, he had a weeks vacation scheduled. In order to get a certified police officer with 20 years experience, I approved this vacation so he would come work for me. Compensation will be made.

The Jailer Should Strengthen Controls Over Payroll and Timekeeping

There were significant deficiencies over the Jailer's payroll and timekeeping system that we consider to be material weaknesses in internal controls. As a result, we recommend the Jailer implement the following controls in order to strengthen internal controls over payroll and timekeeping:

- The Jailer should adopt a formal personnel policy, which includes policies for compensated absences such as annual leave, sick leave, and holidays. The Fulton County Detention Center's current personnel handbook is incomplete as to items such as compensated leave, therefore, the jail operates informally under the county's policies regarding compensated absences. If the Jailer elects to continue operating under the county's personnel policies, a formal adoption of the county's personnel policies should be made. Such adoption should be reflected in the minutes of the fiscal court.
- Employees should complete their own timesheets for hours worked and maintain a copy. Under current procedures, employees are not involved with the keeping of their time. The Jailer's administrative assistant prepares timesheets based on employees' normal work schedules, leave requests, and overtime requests.
- All employees should sign their timesheets for hours worked for each pay period. Currently, employees sign a blank timesheet at the beginning of their employment. The Jailer's administrative assistant then uses copies of these signed timesheets to record the hours worked by employees, which are submitted to the County Treasurer. The County Treasurer processes the payroll bases on these timesheets.

**FULTON COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2006**  
**(Continued)**

INTERNAL CONTROL – REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES  
(CONTINUED)

The Jailer Should Strengthen Controls Over Payroll and Timekeeping (Continued)

- Supervisors or some other designee appointed by the Jailer should sign employees' timesheets. This designee should be someone who can verify the hours worked by the employees.
- The Jailer, with assistance from the County Treasurer, should develop a system for payroll that will ensure employees are paid each period for actual hours worked. Under the current payroll system, timesheets are sometimes turned in up to a week before the end of the pay period. As a result, employees are occasionally paid for hours not worked or shorted on their paycheck causing necessary adjustments to be made in the subsequent pay period.

*Former County Judge/Executive Harold Garrison's Response: Steps are being taken to improve the payroll system.*

*County Jailer Ricky Parnell's Response: I agree, this system has been used since I became Jailer in January 1990. This is the first time it has been brought to my attention. I have taken steps to rectify the system and I am taking further steps to make it better.*

Jail Fund Travel Expenditures Should Be Made In Accordance With The County's Travel Policy

Travel expenses were not made in accordance with the County's travel policy. We noted charges for food that exceeded \$50 per person per day and receipts that were incomplete as to the nature of the expense. According to the County's travel policy, meal expenses should not exceed \$50 per person per day, an acceptable receipt is an original copy of a preprinted form of the business that establishes the amount, date, location, and essential character of the expenditure, and expenses should be necessary as they relate to the business of Fulton County. We recommend the jailer comply with the County's travel policy by not exceeding the daily limit for meals, submitting detailed receipts that list the nature of the expenditure, and all expenses be necessary and for the official business of the Fulton County Detention Center. We also recommend that fiscal court closely review these expenditures before payment is approved.

*Former County Judge/Executive Harold Garrison's Response: No Response*

*County Jailer Ricky Parnell's Response: I have always tried to make sure everyone was in their \$50 a day, if they didn't they had to pay the extra. This incident I do not think you may be aware of the number of people that attended this training. New steps have been made to make sure all receipts are produced.*



**FULTON COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2006**  
**(Continued)**

INTERNAL CONTROL – REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES  
(CONTINUED)

Internal Controls Should Be Strengthened Over Jail Canteen Assets

The purchase of televisions, DVD players, microwaves, and other assets from canteen profits are susceptible to loss due to portability and size. The Jailer does not maintain an inventory of these assets. The county's inventory policy is to inventory all items costing more than \$250 and lasting over a year. At a minimum, the Jailer should follow the county's policy. In addition, specific items should also be inventoried such as televisions, cameras, and computer equipment. The inventory sheet should describe the property, list an inventory control number or serial number, date acquired, location, date destroyed or sold as surplus property and a brief explanation of why the asset was discarded. The inventory sheet should be updated throughout the year. An annual physical inventory of assets should be conducted each year and compared to the inventory sheet. We recommend the jailer strengthen internal controls over jail canteen assets by implementing an inventory system of these assets in order to protect them from misappropriation due to fraud.

*Former County Judge/Executive Harold Garrison's Response:* No Response

*County Jailer Ricky Parnell's Response:* These above mentioned purchases since January 1, 1990, we have never been told by any auditor that they have to be inventory, but we have no problem setting up a program to do inventory.

Expenditures Should Be Supported By Proper Documentation

While testing expenditures from the Jail Fund, we noted expenditures that were not supported by proper documentation, particularly items purchased via credit card. Jail Fund claims submitted to fiscal court included credit card statements, however receipts were not always available to support the credit card statements. Credit card purchases charged to the Jail Fund were \$86,430 for fiscal year 2006. We tested credit card purchases totaling \$19,614 and receipts of \$3,592 were missing to support the credit card statements. We recommend Fiscal Court require that receipts be included to support credit card statements before approval is made to pay the claim and without proper documentation, Fiscal Court should scrutinize all credit card expenses.

*Former County Judge/Executive Harold Garrison's Response:* No Response

*County Jailer Ricky Parnell's Response:* A lot of times when you make purchases on the internet with a credit card there is no receipt generated. We agree that there should be a receipt. Only thing we know to do is to contact the company and try to get them to mail in a receipt.

**FULTON COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2006**  
**(Continued)**

PRIOR YEAR FINDINGS

County Vehicles Should Be Properly Licensed And Titled - Repeated

The Fiscal Court Is Required To Pay For Purchases Within Thirty Days - Repeated

Jail Fund Expenditures Should Be Made In Accordance With County Procurement Policy - Repeated

The Jail Fund Should Reimburse The Canteen Fund \$2,814 - Corrected

Internal Controls Should Be Strengthened Over Jail Canteen Assets - Repeated

All Expenditures Should Be Supported By Proper Documentation - Repeated

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Harold M. Garrison, Former Fulton County Judge/Executive  
Honorable David Gallagher, Fulton County Judge/Executive  
Members of the Fulton County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial Statements  
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fulton County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 8, 2006. Fulton County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fulton County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Fulton County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations.

- Accurate Time Records For The Fulton County Detention Center Should Be Submitted To The County Treasurer
- The Jailer Should Strengthen Controls Over Payroll and Timekeeping
- Jail Fund Travel Expenditures Should Be Made In Accordance With The County's Travel Policy
- Internal Controls Should Be Strengthened Over Jail Canteen Assets
- Expenditures Should Be Supported By Proper Documentation

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Fulton County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of material noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- County Vehicles Should Be Properly Licensed And Titled
- Jail Fund Expenditures Should Be Made In Accordance With County Procurement Policy
- The State Local Finance Officer Should Be Notified Before The County Enters Into A Lease Agreement Exceeding \$100,000
- The Fiscal Court Is Required To Pay For Purchases Within Thirty Days

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

December 8, 2006

